

November 2007

## **Flash Report**

# The Employees' Retirement System of the County of Milwaukee

## MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

## Trustees' Summary

The Total Fund had an aggregate market value of just under \$1.63 billion at the end of November. The Total Fund declined 2.5% during the month, trailing the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, fell 4.3% during the month and small cap equity, as measured by the Russell 2000 Index, declined 7.2%. Growth outpaced value in both the large and small cap spaces.

The international equity markets dropped 3.3% in November, as measured by the MSCI EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, declined 7.1%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 1.8% during the month. High yield issues trailed the broad market depreciating 2.0%, as measured by the Merrill Lynch High Yield Index.

## Recommendations and Comments

- Capital Guardian's International Equity assets were transitioned to Baring Asset Management at the end of October. Performance for Baring began in November.
- Mercer recommends that the ERS source the cash needed for benefit payments at the end of December from the real estate segment of the Fund with \$10 million from ING Clarion.
- Reinhart Partners was given an additional \$10 million in early December; \$5 million was sourced from Earnest Partners and \$5 million was sourced from Artisan Partners
- The termination of Hotchkis & Wiley and subsequent investment in Russell Mid Cap Value iShares will take place in mid December.

**Flash Report**

The Employees' Retirement System of the County of Milwaukee

**MANAGER REPORTED PERFORMANCE**

As of November 30, 2007

	Assets (\$ millions)	November	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,626.67	-2.5	7.1	7.9	11.4	13.7	9.1	8.4	—	
vs. Composite Market Index		-2.3	6.8	7.6	10.2	12.4	7.8	7.7	—	
CPI + 4% (1 Month in Arrears)		0.5	6.9	7.5	7.1	6.9	6.6	6.6	—	
<b><u>LARGE CAP VALUE EQUITY MANAGER</u></b>										
Boston Partners	132.15	-3.3	6.4	8.9	13.9	15.3	9.5	8.9	12.5	8/1/95
Boston Partners - Net		-3.3	6.2	8.7	13.7	15.1	9.3	8.6	12.2	
vs. Russell 1000 Value + 1%		-4.8	1.7	4.1	11.9	14.8	8.6	9.1	12.7	
S&P 500 + 1%		-4.1	7.1	8.7	11.1	12.6	4.5	7.2	11.0	
CPI + 6.5% (1 Month in Arrears)		0.7	9.5	10.0	9.6	9.4	9.1	9.1	9.1	
<b><u>LARGE CAP GROWTH EQUITY MANAGER</u></b>										
Mellon Capital Management - Ru 1000 Growth Index	81.32	-3.7	12.2	12.6	10.2	10.6	N/A	N/A	2.4	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-3.7	12.2	12.6	10.2	10.6	N/A	N/A	2.4	
vs. Russell 1000 Growth		-3.7	12.2	12.6	10.2	10.6	-0.2	4.0	2.3	
<b><u>LARGE CAP EQUITY INDEX</u></b>										
Mellon Capital Management - S&P 500	107.90	-4.2	6.3	7.8	10.2	11.7	3.5	6.2	10.8	4/13/95
Mellon Capital Management - S&P 500 - Net		-4.2	6.3	7.8	10.1	11.6	3.5	6.2	10.7	
vs. S&P 500		-4.2	6.2	7.7	10.1	11.6	3.5	6.2	10.7	
<b><u>MID CAP VALUE EQUITY MANAGER</u></b>										
Hotchkis & Wiley	26.08	-7.2	-13.4	-12.3	N/A	N/A	N/A	N/A	4.6	2/18/05
Hotchkis & Wiley - Net		-7.3	-14.1	-13.0	N/A	N/A	N/A	N/A	3.7	
vs. Russell Mid Cap Value + 1%		-5.2	0.6	1.7	12.9	18.6	13.8	11.7	12.1	
CPI + 5.7% (1 Month in Arrears)		0.7	8.7	9.2	8.8	8.6	8.3	8.3	9.0	
<b><u>MID CAP GROWTH EQUITY MANAGER</u></b>										
Artisan Partners	31.26	-5.6	21.8	21.3	15.9	16.5	9.2	N/A	7.8	6/12/00
Artisan Partners - Net		-5.7	20.9	20.3	14.9	15.5	8.3	N/A	6.9	
vs. Russell Mid Cap Growth +1%		-4.3	12.0	11.1	14.0	17.4	5.8	8.7	1.5	
CPI + 5.7% (1 Month in Arrears)		0.7	8.7	9.2	8.8	8.6	8.3	8.3	8.4	

(1) Total Fund returns represent actual returns through 9/30/2007 and estimated performance thereafter.

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**

As of November 30, 2007

<b>MID CAP CORE EQUITY</b>	<b>Assets (\$ millions)</b>	<b>November</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
EARNEST Partners	29.88	-4.2	8.8	7.9	N/A	N/A	N/A	N/A	12.0	2/18/05
EARNEST Partners - Net		-4.2	8.1	7.0	N/A	N/A	N/A	N/A	11.2	
vs. Russell Mid Cap Index + 1%		-4.7	6.8	6.9	13.8	18.3	11.2	11.2	13.1	
CPI + 5.7% (1 Month in Arrears)		0.7	8.7	9.2	8.8	8.6	8.3	8.3	9.0	
Reinhart Partners	14.16	-5.1	7.7	9.3	N/A	N/A	N/A	N/A	14.3	2/18/05
Reinhart Partners - Net		-5.3	6.8	8.4	N/A	N/A	N/A	N/A	13.6	
vs. S&P 400		-5.0	8.2	7.7	11.9	15.3	9.9	11.6	11.0	
CPI + 5.7% (1 Month in Arrears)		0.7	8.7	9.2	8.8	8.6	8.3	8.3	9.0	
<b>SMALL CAP EQUITY MANAGERS</b>										
Westfield Capital Management	41.27	-5.3	12.0	10.8	11.2	16.2	N/A	N/A	7.1	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		-6.9	6.4	6.1	9.2	14.7	5.3	4.3	5.6	
CPI + 5.9% (1 Month in Arrears)		0.7	8.9	9.4	9.0	8.8	8.5	8.5	8.5	
AQR	37.70	-5.8	-9.0	-8.7	N/A	N/A	N/A	N/A	-3.8	10/2/2006
AQR - Net		-5.8	-9.0	-8.7	N/A	N/A	N/A	N/A	-3.8	
vs. Russell 2000 Value		-7.5	-9.0	-8.2	6.4	15.0	13.0	9.5	-0.7	
Russell 2000 + 2%		-7.0	0.3	0.8	9.9	16.9	11.4	9.3	8.2	
CPI + 5.9% (1 Month in Arrears)		0.7	8.9	9.4	9.0	8.8	8.5	8.5	8.0	
<b>INTERNATIONAL EQUITY MANAGERS</b>										
Baring (1)	103.30	-4.9	--	--	--	--	--	--	-4.9	11/1/2007
Baring - Net		-4.9	--	--	--	--	--	--	-4.9	
vs. EAFE + 1%		-3.2	15.1	18.8	20.9	22.8	10.7	10.4	-3.2	
CPI + 6.7% (1 Month in Arrears)		0.8	9.7	10.2	9.8	9.6	9.3	9.3	0.8	
Grantham, Mayo	150.61	-4.8	15.8	19.4	22.2	26.8	17.9	14.7	13.0	4/13/95
Grantham, Mayo - Net		-4.8	15.1	18.7	21.3	25.9	17.0	13.9	12.2	
vs. EAFE + 1%		-3.2	15.1	18.8	20.9	22.8	10.7	10.4	9.5	
CPI + 6.7% (1 Month in Arrears)		0.8	9.7	10.2	9.8	9.6	9.3	9.3	9.3	

(1) Capital Guardian assets were transitioned to Baring at the end of October.

Policy Measures are Highlighted

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**MANAGER REPORTED PERFORMANCE**

As of November 30, 2007

	Assets (\$ millions)	November	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
<b>INTERNATIONAL SMALL CAP EQUITY MANAGER</b>										
Capital Guardian	73.19	-8.6	10.7	15.4	26.9	31.1	14.6	13.0	12.3	10/31/97
Capital Guardian - Net		-8.6	10.2	14.8	26.3	30.3	13.9	12.4	11.6	
vs. MSCI World Ex U.S. Small Cap + 1%		-8.2	5.6	8.7	17.5	25.5	14.6	11.0	10.0	
CPI + 6.9% (1 Month in Arrears)		0.8	9.8	10.4	10.0	9.8	9.5	9.5	9.5	
<b>CORE FIXED INCOME MANAGERS</b>										
JPMorganChase	113.31	1.7	6.7	6.1	N/A	N/A	N/A	N/A	6.4	11/1/05
JPMorganChase - Net		1.7	6.5	5.9	N/A	N/A	N/A	N/A	6.2	
vs. LB Aggregate + 0.5%		1.8	7.1	6.5	5.3	5.3	6.5	6.6	6.5	
CPI + 2.6% (1 Month in Arrears)		0.4	5.9	6.1	5.7	5.5	5.2	5.2	5.0	
Mellon Capital Management	344.27	1.8	6.8	6.2	4.8	4.8	6.1	6.1	6.2	1/31/96
Mellon Capital Management - Net		1.8	6.8	6.1	4.8	4.8	6.1	6.1	6.1	
vs. LB Aggregate		1.8	6.7	6.0	4.8	4.8	6.0	6.1	6.1	
Loomis, Sayles	100.29	0.8	8.1	6.8	6.6	8.9	9.7	8.0	9.9	6/30/91
Loomis, Sayles - Net		0.8	8.0	6.7	6.5	8.8	9.6	7.9	9.7	
vs. Fixed Income Reference Index + 0.5% (1)		1.8	7.1	6.5	5.3	5.3	6.5	6.5	8.0	
LB Aggregate + 0.5%		1.8	7.1	6.5	5.3	5.3	6.5	6.6	7.8	
CPI + 2.6% (1 Month in Arrears)		0.4	5.9	6.1	5.7	5.5	5.2	5.2	5.4	

(1) The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

Policy Measures are Highlighted

**Flash Report**

The Employees' Retirement System of the County of Milwaukee

**MANAGER REPORTED PERFORMANCE  
As of November 30, 2007**

<b>HIGH YIELD FIXED INCOME MANAGER</b>	<b>Assets (\$ millions)</b>	<b>November</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
Loomis, Sayles	121.41	-1.0	2.1	2.7	6.4	12.2	10.3	7.7	12.1	11/30/82
Loomis, Sayles - Net		-1.0	2.0	2.6	6.2	12.1	10.2	7.6	12.0	
vs. Merrill Lynch High Yield + 1.5%		-1.9	3.2	4.5	7.4	12.3	10.0	7.4	N/A	
CPI + 5.0% (1 Month in Arrears)		0.6	8.1	8.5	8.1	7.9	7.6	7.6	N/A	
<b>REAL ESTATE MANAGERS</b>										
ING Clarion Real Estate Securities	68.33	-9.3	-11.2	-12.5	14.0	21.1	17.5	12.2	12.7	1/13/97
ING Clarion Real Estate Securities - Net		-9.4	-11.5	-12.9	13.5	20.7	17.1	11.8	12.2	
vs. Wilshire REIT Index + 1%		-9.6	-12.0	-13.9	13.3	20.9	18.2	12.9	13.5	
MSCI US REIT Index + 1%		-9.4	-11.3	-12.8	13.0	20.4	18.1	12.2	12.7	
CPI + 5.9% (1 Month in Arrears)		0.7	8.9	9.4	9.0	8.8	8.5	8.5	8.5	
<b>VENTURE CAPITAL MANAGERS</b>										
Adams Street Partners (1)	29.41	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (2)	--	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	2.76	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Consists of the most recently available custody Market Value to account for the cash the manager does not include in their values.

(2) The assets invested with Adams Street Partners is aggregated to account for the custody cash.

Policy Measures are Highlighted

**ASSET ALLOCATION**  
**As of November 30, 2007**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<b>Total Large Cap Equity</b>	<b>19.8 %</b>	<b>20.0 %</b>	<b>17.0 %</b>	<b>25.0 %</b>
Boston Partners	8.1			
Mellon Capital Russell 1000 Growth	5.0			
Mellon Capital S&P 500	6.6			
<b>Total Medium Cap Equity</b>	<b>6.2 %</b>	<b>6.0 %</b>	<b>4.0 %</b>	<b>7.5 %</b>
Artisan Partners	1.9			
Hotchkis & Wiley	1.6			
EARNEST Partners	1.8			
Reinhart Partners	0.9			
<b>Total Small Cap Equity</b>	<b>4.9 %</b>	<b>5.0 %</b>	<b>3.0 %</b>	<b>6.5 %</b>
Westfield	2.5			
AQR	2.3			
<b>Total International Equity</b>	<b>15.6 %</b>	<b>16.0 %</b>	<b>11.0 %</b>	<b>21.0 %</b>
Baring	6.4			
Grantham, Mayo	9.3			
<b>Int'l Small Cap Equity</b>	<b>4.5 %</b>	<b>4.0 %</b>	<b>0.0 %</b>	<b>7.0 %</b>
Capital Guardian	4.5			
<b>Venture Capital</b>	<b>2.0 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL EQUITY</b>	<b>52.9 %</b>	<b>54.0 %</b>	<b>37.0 %</b>	<b>74.0 %</b>

**ASSET ALLOCATION**  
**As of November 30, 2007**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<b>Total Core Fixed Income</b>	<b>34.3 %</b>	<b>35.0 %</b>	<b>31.0 %</b>	<b>41.0 %</b>
JP Morgan	7.0			
Mellon Capital	21.2			
Loomis, Sayles	6.2			
<b>High-Yield Fixed Income</b>	<b>7.5 %</b>	<b>7.0 %</b>	<b>5.0 %</b>	<b>9.0 %</b>
Loomis, Sayles	7.5 %			
<b>Cash</b>	<b>1.1 %</b>	<b>1.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL FIXED INCOME</b>	<b>42.9 %</b>	<b>43.0 %</b>	<b>34.0 %</b>	<b>55.0 %</b>
<b>REAL ESTATE</b>	<b>4.2 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>7.5 %</b>
<b>ALTERNATIVE INVESTMENTS</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>
<b>TOTAL</b>	<b>100.0 %</b>	<b>100.0 %</b>		



**Average Credit Quality  
of current Fixed Income managers**

JPMorgan	AAA
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	A1
Loomis High Yield:	Ba3

### Mercer Ratings for Current Managers

<b><i>Large Cap Eq</i></b>	<b>Mercer Rating</b>	<b><i>Int'l Small Cap Eq</i></b>	<b>Mercer Rating</b>
Boston Partners	A-	Cap. Guardian	N
Mellon Russell 1000 Growth	N <sup>1</sup>		
Mellon S&P 500	N <sup>1</sup>		
		<b><i>Core Fixed</i></b>	
		JP Morgan	B
		Mellon	N <sup>1</sup>
		Loomis, Sayles	B (T)
<b><i>Mid &amp; Small Cap Eq</i></b>			
Artisan	B+		
Hotchkis & Wiley	A (T)		
EARNEST Partners	B+		
Reinhart & Mahoney	N		
Westfield	B+		
AQR	A		
		<b><i>High Yield Fixed</i></b>	
		Loomis, Sayles	B (T)
<b><i>Int'l Eq</i></b>			
Baring	A-		
Grantham, Mayo Intl Intrinsic Value	A		
Grantham, Mayo Intl Small Company	A		
		<b><i>Real Estate</i></b>	
		ING Clarion	N

<sup>1</sup> Mercer no longer rates index funds, however, Mercer considers Mellon to be a top tier index provider.

**The Employees' Retirement System of the County of Milwaukee  
Proposed Investment Manager Due Diligence 2007**

<u>Date</u>	<u>Managers Invited to Present</u>
17-January	Hotchkis & Wiley
14-February	EARNEST Partners
21-February	Reinhart & Mahoney
21-March	Artisan*
18-April	
16-May	Boston Partners
20-June	Adam Street Partners
18-July	ING Clarion
15-August	AQR
19-September	Capital Guardian
17-October	GMO and Westfield (TBD)
14-November	Loomis Sayles (both Core and High Yield)
19-December	JP Morgan

\* Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

# MERCER



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